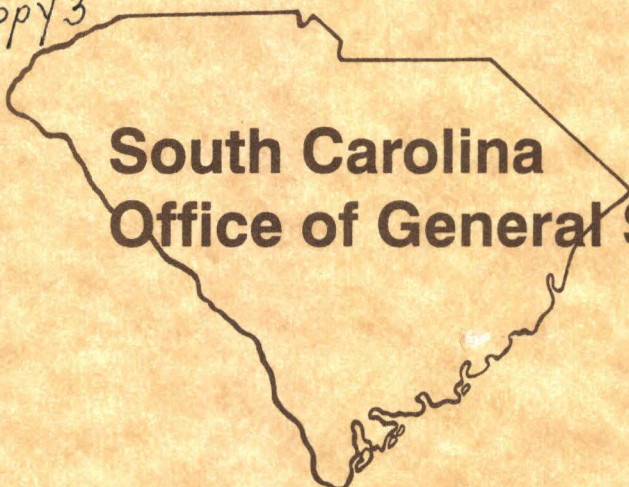


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**South Carolina
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PROCUREMENT AUDIT AND CERTIFICATION

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STATE DOCUMENTS

DEPARTMENT OF NATURAL RESOURCES

AGENCY

JULY 1, 1997 – SEPTEMBER 30, 2000

DATE

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MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

January 24, 2001

Mr. George N. Dorn, Jr., Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear George:

I have attached the South Carolina Department of Natural Resources' procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department a three-year certification as noted in the audit report.

Sincerely,

R. Voight Shealy
Materials Management Officer

/jl

SOUTH CAROLINA DEPARTMENT OF NATURAL RESOURCES

PROCUREMENT AUDIT REPORT

JULY 1, 1997 - SEPTEMBER 30, 2000

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter	1
Introduction	3
Background	4
Scope	5
Summary of Findings	6
Results of Examination	7
Certification Recommendations	12
Follow up Letter	13

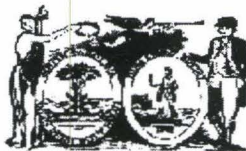
NOTE: The Department's responses to issues noted in this report have been inserted immediately following the items they refer to.

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

January 17, 2001

Mr. R. Voight Shealy
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Natural Resources for the period July 1, 1997 through September 30, 2000. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and the Department's procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Department of Natural Resources is responsible for establishing and maintaining a system of internal control over procurement transactions. In

fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

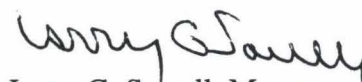
Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Department of Natural Resources in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in dark ink, appearing to read "Larry G. Sorrell", is written over the printed name.

Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Natural Resources. Our on-site review was conducted October 24, 2000 through December 8, 2000 and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the Department in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Office of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On February 10, 1998, the Budget and Control Board granted the Department the following procurement certifications.

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$50,000 per commitment
Information Technology	\$50,000 per commitment
Consultant Services	\$50,000 per commitment
Construction Contract Award	\$25,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. No additional certification was requested.

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples for the period July 1, 1997 through September 30, 2000 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period July 1, 1997 through September 30, 2000
- (2) Procurement transactions for the period July 1, 1997 to September 30, 2000 as follows:
 - a) Ninety-three payment transaction greater than \$1,500 each reviewed for competition and compliance to the Code
 - b) An additional sample of nine solicitations
 - c) A block sample of six hundred numerical purchase orders reviewed for order splitting and favored vendors
- (3) Five construction contracts and three professional services contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period
- (5) Approval of most recent Information Technology Plan
- (6) Internal procurement procedures manual
- (7) File documentation and evidence of competition
- (8) Surplus property procedures

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Natural Resources, hereinafter referred to as the Department, produced the following findings and recommendations.

	<u>PAGE</u>
I. <u>Sole Source and Emergency Procurements</u>	
A. <u>Emergency Procurements</u>	7
We reviewed \$469,415 in emergency procurements for public boat ramp and dock repairs. An indefinite delivery contract should be established to eliminate the emergencies. We noted three emergency procurements for printing services of the Wildlife Management Area maps.	
B. <u>Inappropriate Sole Sources</u>	8
Four procurements were inappropriate as sole sources.	
II. <u>Other Audit Exceptions</u>	
A. <u>Inadequate Competition</u>	9
Three procurements did not have adequate solicitations of competition.	
B. <u>Payment Discrepancies</u>	10
In our previous audit report we noted overpayments. Our current audit revealed overpayments and other payment discrepancies.	

RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

We examined the quarterly reports of sole source, emergency and trade-in sale procurements for the period July 1, 1997 through September 30, 2000. The review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Office of General Services as required by Section 11-35-2440 of the Code. The following exceptions were noted.

A. Emergency Procurements

In recent years the Department has constructed and improved many additional public boat ramps and docks across the State. Because of the increasing number of boating facilities, the Department is facing more repairs and maintenance. From time to time citizens notify the Department of dangerous conditions at these facilities which require the Department to take immediate action. The seriousness of the conditions to the public, property, and potential liability causes the Department to declare emergency procurements to correct the conditions as expeditiously as possible. During our audit period, we reviewed \$469,415 in emergency procurements for public boat ramp and dock repairs. It is apparent to us that emergency conditions will continue to occur thereby requiring the Department's immediate attention.

Therefore, to eliminate the emergency procurements, we recommend the Department establish an indefinite delivery contract through the Office of the State Engineer for these repair services. This type of contract, which is competed in accordance to normal construction procurement procedures, establishes a rate schedule for services and supplies and puts a vendor "on call" for immediate response to the Department's needs.

Additionally, we noted the following three emergency procurements for the annual procurement of printing services of the Wildlife Management Area (WMA) maps.

<u>PO</u>	<u>Date</u>	<u>Amount</u>
495	7/30/97	\$ 35,250
404	7/21/99	30,345
246	7/20/00	30,186

The justification for the emergency procurements relies on negotiations conducted up to the last minute that establish WMA zones with private land owners and timber companies. The printed publication must be made available to the public before the opening of hunting season, which is August 15 of each year. For the transactions reviewed, the Department did not have enough time between the conclusion of negotiations and the opening of hunting season to allow for normal bidding procedures of the final maps. It is apparent to us that the likelihood of the condition above that resulted in the emergency procurements will continue.

We recommend the Department conduct a solicitation soon enough to allow for normal procurement procedures prior to the opening of hunting season. We believe sufficient information is available to determine the bid specifications without knowing the exact boundaries of the zones. The Department can estimate the number of maps and establish a per page rate for variances over or under the estimate.

B. Inappropriate Sole Sources

We noted the following inappropriate sole source procurements.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
1758	Consultant to conduct a statistically valid sample	\$10,000
3014	Consultant to conduct a survey of youth on understanding fishing	20,000
3974	Consultant to conduct harvest study	28,750
32117	20 day lease of trawler for research	30,000

The three consultant contracts were awarded to the same consultant. While this vendor may have been the best choice for the Department, we do not believe the vendor was the only choice.

We recommend the Department use the request for proposal (RFP) procurement methodology for such procurements. Under the RFP procedure, the Department is able to consider factors such as qualifications and experience in determining the best source for the job.

The sole source procurement of the trawler lease resulted after no responses were received to a solicitation. Under Regulation 19-445.2110(F), an agency may use an emergency procurement after an unsuccessful attempt at bidding provided time does not allow for another bid.

We recommend the Department use the emergency procedure in the future and obtain as much competition as is practical under the circumstances.

DEPARTMENT RESPONSE

The Department has contacted the Office of the State Engineer to seek guidance on the development of an indefinite delivery contract to facilitate the repairs of public boat ramps and boating facilities. Future sole sources and emergencies will be carefully reviewed for their appropriateness and where practical, advertisements in SCBO will be used to help identify sources of supply and to determine the appropriateness of sole sources and emergencies.

II. Other Audit Exceptions

A. Inadequate Competition

The following three procurements did not have adequate solicitations of competition.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
PO 3523	Repairs to office building	\$19,021
PO 1552	GPS mapping system	11,285
PO 3823	Water quality monitor	11,032

The three procurements had solicitations of written quotes and advertisement in the South Carolina Business Opportunities (SBCO). However, since each procurement was between \$10,000 and \$25,000, the Department was required to make a written solicitation of written quotes and advertise in SCBO.

We recommend the Department comply with the competitive requirements of the Code.

DEPARTMENT RESPONSE

The Department will insure that written solicitations for written quotes are prepared for procurements between \$10,000 and \$25,000.

B. Payment Discrepancies

Our previous audit included overpayments. Our current audit revealed overpayments and other payment discrepancies.

<u>PO</u>	<u>Voucher</u>	<u>Description</u>	<u>Price Paid</u>	<u>Correct Price</u>	<u>Overpayment</u>
00 231	6335	Freight for boat	\$1,650	\$0	\$1,650
99 3298	28537	Freight for air boat	550	0	550
00 394	19039	Trout feed	24.80/lb	24.20/lb	14.40
00 877	6861	Office furniture	0	0	0
00 854	4735	Boots	73	73	0

Purchase order 00 231 listed an 18 foot patrol boat delivered FOB destination. The Department received and paid for a 19-foot patrol boat and paid \$1,650 in freight charges. Because the boat ordered and the boat received was so different, it was not possible for us to reconcile the purchase order to the invoice. With such a large discrepancy in item description and cost, the Department should not have processed the invoice without requesting a written change order to be prepared. At that time the Procurement Office could have determined if the item delivered and the prices being charged were accurate. Because of certain structural concerns with the smaller boat, the Department negotiated with the vendor to delivery the larger boat, however Accounts Payable was not aware of the negotiated change.

Purchase order 99 3298 was prepared FOB destination. However, the vendor invoiced and was paid \$550 in freight charges. Accounts Payable should have requested the Procurement Office to review the freight charge before it was paid. Such a review would have revealed that the Department incorrectly prepared the purchase order. The vendor included \$550 of freight charges in its response to the solicitation and was due payment, but Accounts Payable did not know that.

Purchase order 00 394 listed one of its items at \$24.20 per pound. However, the vendor invoiced and was paid \$24.80 per pound. Because the invoice and purchase order were not comparable in terms of unit costs, i.e. the purchase order listed the price per pound and the invoice listed the price per bag, no one identified the discrepancies. We requested that all invoices charged against the purchase order be reviewed. According to the Department, the invoice we reviewed was the only overpayment.

Purchase order 00 877 said "furniture per attached specifications." The attachment listed the furniture ordered and the cost for each item. Accounts Payable did not have the attachment with the voucher file. Without the attachment it was not possible to determine if the Department got what it ordered and if the prices were correct.

Purchase order 00 854 included 9-inch women's boots. The Department received and paid for 8-inch women's boots. Since the 8-inch boot was not ordered, the Department should not have accepted delivery.

We recommend Accounts Payable resolve any discrepancies between invoices and purchase orders prior to payment. Payments should only be made based on the terms noted on the purchase order or as authorized by the Procurement Office through change orders where appropriate.

DEPARTMENT RESPONSE

The Department has taken the necessary steps to have the Procurement Department and Accounts Payable work much closer in reconciling payment invoices with purchase orders. Editing practices have been reviewed and modified to provide for an efficient review of prior to payment.

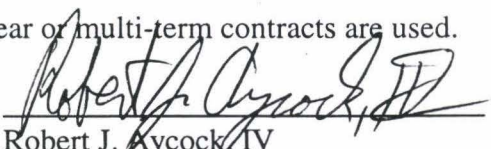
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, will in all material respects place the South Carolina Department of Natural Resources in compliance with the Consolidated Procurement Code and ensuing Regulations.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Department of Natural Resources be recertified to make direct agency procurements for three years up to the limits as follows:

<u>PROCUREMENT AREA</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Goods and Services	*\$50,000 per commitment
Information Technology	*\$50,000 per commitment
Consultant Services	*\$50,000 per commitment
Construction Contract Award	*\$25,000 per commitment
Construction Contract Change Order	\$25,000 per change order
Architect/Engineer Contract Amendment	\$5,000 per change order

*The total potential purchase commitment whether single year or multi-term contracts are used.


Robert J. Aycock IV
Audit Manager


Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

January 24, 2001

Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the South Carolina Department of Natural Resources to our audit report for the period of July 1, 1997 – September 30, 2000. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the Department has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant South Carolina Department of Natural Resources the certification limits noted in our report for a period of three years.

Sincerely,

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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